CANADIAN RELOCATION SYSTEMS, HOUSE AND MORTGAGE

1. HOUSE AND MORTGAGE

If you are buying a property ask your human resources representative at your new placement if he/she has a working relationship with a real estate agency or relocation firm. This is an advantage when starting a home search.

You may have the option of working with an assigned agent or deciding to choose an agent of your own. It is always best to work with somebody who is familiar with corporate relocations and can explain the home buying/renting process.

There are many differences between American and Canadian house buying procedures.The main difference, and perhaps the most surprising to Americans, is the non-deductible mortgage payment in Canada. Homeowners in the U.S. may deduct their mortgage interest payments from their taxable income. This is NOT the case in Canada. Canadians CANNOT deduct their mortgage interest payments from their taxable income.
Mortgage terms are different. In the United States a mortgage is set up with a pre-determined ammortization period, for example 25 years. The interest rate and mortgage payments remain the same for 25 years. In Canada, the mortgage is set up with a pre-determined ammortization period, for example 25 years, but the interest rate is renegotiated during this time period.

This means that a mortgage holder has to renegotiate the terms of the mortgage several times as specified by the financial contract. For example, the Smiths have a $50,000.00 mortgage on their home.The interest rate has been set at 7%, paid annually, for an ammortization period of 25 years, but renewable in 5 years. In five years the Smith's will have paid off some of the mortgage principal but the remainder will have to be renegotiated at the current interest rates.This creates uncertainty for many homeowners who cannot predict the trend of interest rates.

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2. PURCHASING A HOUSE

Buying a home costs more than the offer you make. There are numerous other expenses that will add to the amount that you'll need to spend. This purchase price checklist outlines all the costs you can expect. Please note that they can vary by province and are subject to change

- Purchase Price
- Lawyer's Fees
- Land Transfer Tax
- Registration Fees

- High Ratio Insurance
- Compliance Letter
- Tax Certificate
- Provincial "New Home Warranty Program" premiums — New Homes Only!
- Mortgage Appraisal and Application Fees
- Home Inspection
- Land Survey
- Title Insurance
- Connection Charges
- Property Tax and Prepaid Utilities Adjustments
- Interest Adjustment (IA)

Purchase Price
The starting point in your calculation... if you're like most first-time home buyers, you'll need a mortgage for the majority of this!

Lawyer's Fees
Although fees vary across Canada, it can cost you up to $2,500 depending upon whether you are re-mortgaging your existing home or buying new. As prices do vary, make sure to get at least 3 quotes.

Land Transfer Tax
A tax payable to the Provincial Government by the purchaser upon the transfer of title from a seller. This amount is usually not expected by most homeowners. It can be sizeable. The amount varies from province to province and is generally a percentage of your purchase price. Your Lawyer can advise you.

Registration Fees
Fees paid to the provincial government for recording a title transfer, mortgage registration or other instrument such as an Assignment or Lien with the local authorities.

High Ratio Insurance
Must be purchased if you are buying a home for less than 25% down. A sliding fee scale applies, depending on the percentage of the purchase price required in a first mortgage (some minor exceptions). For example, as of May 1997 Canada Mortgage and Housing Corporation (CMHC) and its competitor GE Capital charge a 2.5% one-time fee — which can be added to the mortgage — for any mortgage over 85% — 90% of the purchase price. See also Mortgage Insurance for a definition.

Compliance Letter
Obtained by your lawyer and required in many municipalities throughout Canada before a property transfer can take place. This is an acknowledgement from the building department that the property either has, or is clear of outstanding work-orders. Work-orders are specific clean-up or fix-up requirements that the owner is legally required to do, and which must be completed before ownership can be transferred.

Tax Certificate
Obtained by your lawyer at the time of sale to confirm that local taxes have been paid up to date. If they are not up to date, the seller is required to pay them from the proceeds of the sale. If there are insufficient proceeds, then you may be legally required to pay the outstanding taxes. If, on the other hand, taxes have been prepaid, you may have to compensate the seller for them.

Provincial "New Home Warranty Program" premiums — New Homes Only!
A third party (provincial) warranty program between a builder and a buyer. With the exception of Ontario and Quebec, membership in such a program is voluntary for the builder. Through these programs, your home is guaranteed against defects for at least one year. All homes with a high-ratio insured mortgage (greater than 75% loan to value) must be enrolled in such a program.

Mortgage Appraisal and Application Fees
Application fees apply on high ratio mortgages only while appraisal fees are common to most mortgages. Generally $150 — $235 each would apply.

Home Inspection
A report commissioned by a property owner or purchaser, usually to verify the condition of a property prior to the "firming up" of a purchase agreement. The scope and detail may vary, but most reports outline any particular problems and associated repair costs. Unfortunately, no licensing is required, and this service is not specifically regulated other than by general consumer protection legislation. The best safeguard against inadequate work is to ask for the resume of the Inspector, or select a name firm, who stand by their work.

Land Survey
The legal written and/or mapped description of the location and dimensions of your land. The survey should also show the dimensions and placement on the lot of any structure, including additions such as pools, sheds and fences. An up-to-date survey is often required by a lender as part of the mortgage transaction.

Title Insurance
New to Canadian consumers over the last few years is the introduction of title insurance into the home buying process. Title insurance can be purchased by home buyers to protect against potential deficiencies in a number of areas, such as the land survey. There are numerous benefits to this product, and you should consult your lawyer.

Connection Charges
Some local utility companies (hydro, gas, oil) charge a fee on closing to connect new buyers up to their service. More common, however, is an extra charge on the first billing.

Property Tax and Prepaid Utilities Adjustments
If the previous owner prepaid property taxes or other utilities, they will be credited the prepaid portion on closing. If they paid all their taxes by April, expect a large adjustment cost on closing!

Interest Adjustment (IA)
If you arrange to make your mortgage payments monthly on the first day of the month, and your transaction closes after the first day of the month, your lender will charge you interest on closing to the next interest date, called the Interest Adjustment Date (IAD), when your payment cycle will commence. This can be a sizeable amount, but it is the correct interest you should pay. For example, close on June 15th, pay 15 days interest on closing and start payments on August 1st.

Get a free no obligation Mortgage quote here: http://relocatecanada.com/invis/apply.html

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3. MORTGAGE RATES

Today, more than ever, there are numerous mortgage options available. Don't be confused, your Mortgage Consultant or Financial Institution can help you find the best product for your needs and get you the best rate. They do the research for you, enabling you to avoid the frustration and confusion of having to do it yourself, and explain the available options.

MORTGAGE CATEGORIES:

FIXED-RATE:

6 month, 1, 2 & 3 year (open, closed and closed - convertible) 4, 5, 7 & 10 year closed

VARIABLE-RATE:
3, 4 and 5 year (open, closed, closed-convertible and capped)

SPLIT-TERM:
Combination of all possible terms (6 month through 10 years)

SELF-DIRECTED RRSP:
A specialty mortgage rate term optional within CMHC guidelines. Invest your own RRSP funds into all or part of your home mortgage.

WHAT TERMS AND PAYMENT OPTIONS TO CHOOSE?
It all depends on what you want. Your Mortgage Consultant or Financial Institution will assess your personal situation and needs to find the best mortgage for you at the best rate.

SHORT-TERM RISK AND VARIABLE:
If rates are low and stable, and/ or you are prepared to take a risk, you can generally pay a lower rate with a short-term mortgage. You simply roll over your term every 6 months, or float your rate against prime, with the option of locking in to a longer term at a later date. This is not for everyone, however, as sudden upward rate movements can have a significant impact on your payments. You may want to discuss this with your Mortgage Consultant or Financial Institution.

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4. HOW TO PAY OFF YOUR MORTGAGE FASTER

One of the highest financial priorities of Canadian homeowners is to pay off their mortgage as quickly as possible. Most are aware that paying down extra principal in the early years by whatever means possible can shorten the life of your mortgage — and dramatically lower the interest you'll pay over the long haul. The tips below describes some of the most effective methods of achieving this.

TIP #1: Mortgage payments made with After Tax Cash
More Canadians are becoming aware that, since mortgage interest is not tax-deductible in Canada you are making mortgage payments of both principal and interest with money that you've already paid tax on — "after tax dollars". This makes it even more important to eliminate the drainage of disposable income as soon as possible!

TIP #2: Prepayments give great Return on Investment
If you pay an average of 6.5% in mortgage interest, for each $1,000 by which you reduce your mortgage principal, you will save $65 in after tax cash every year. If you are paying taxes at a marginal rate of 40%, you have to earn $108.33 each year to pay the interest on every $1,000 of principal outstanding...a heavy burden, but also a tremendous implied benefit to reducing this balance. In fact, the example shows that the "return on investment" for making prepayments on your mortgage is 10.833% before tax and 6.5% after tax — far better than most fixed return investments (bonds, GIC's etc.).

TIP #3: Increase your payment annually to the maximum.
The upside is that most lenders will allow you to reduce it again to the previous level if it turns out to be too great a burden or your circumstances change.

TIP #4: Utilize your RRSP-driven tax rebate as a mortgage prepayment method

Even if you can only prepay annually, make sure these funds are set aside for that purpose. Many Canadians will borrow (at prime) to buy an RRSP to ensure the maximum rebate. When applied to the mortgage principal, this refund is a "gift that keeps on giving". Combining the refund with the tax-free interest earned on the RRSP over the subsequent years will quickly outpace the short-term interest costs of the RRSP loan.

TIP #5: Increase the frequency of your payments

Make accelerated bi-weekly payments to get a "free" principal reduction equivalent to one full mortgage payment every year painlessly. Unless you are paid weekly it makes little sense to make weekly payments. All you'd be doing is making a smaller payment, and deferring the difference for a week.

TIP #6: Make use of double-up privileges wherever possible

Tell yourself that you will "skip-a-payment" whenever necessary... then skip only when you absolutely must.

TIP #7: Round your payments up

By adding even a nominal amount of say, $10 per payment, the amount of interest you are saving will be unbelievable, and the extra money relatively painless to part with.

TIP #8: Pay a lump sum whenever possible

By decreasing the principal of the mortgage, your payments will not be allocated as much to interest in the future, thereby accelerating your freedom to mortgage-free life.

TIP #9: Keep payments the same when mortgage rates have fallen:

If the payment amount has not been a problem so far, then keep it the same thus paying down the principal faster.

TIP #10: Raise payments in line with increased income on an after-tax basis

If your income increases, don't keep your mortgage payments the same. Although the disposable income may be fun to spend on unnecessary luxuries in the short-term, the long-term benefits of being mortgage free faster and saving those interest payments will far outweigh the short-term curtailing just pretend that your income did not increase and maintain our usual lifestyle.

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